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TAGS: ECON ETRD ES
SUBJECT: EL SALVADOR'S AGGRESSIVE TRADE AGENDA

¶1. Summary. Under its export-led growth strategy launched in 1989, El Salvador has pursued economic integration with its Central American neighbors and negotiated trade agreements with the Dominican Republic, Chile, Mexico, Panamsa, and the United States. Agreements with Taiwan, Colombia, the European Union, and Canada are under negotiation while agreements with CARICOM and Israel are being considered. The Salvadoran government has developed a comprehensive National Export Strategy to help local producers take advantage of these new markets and to overcome difficulties in diversifying exports beyond coffee, sugar, and apparel. End summary

El Salvador's Trade Agenda

¶2. El Salvador has pursued trade liberalization and export-led growth since 1989, when the Cristiani government began lowering tariffs, which peaked at 290 percent, and eliminating most non-tariff barriers. In addition, since 1994 El Salvador has aggressively pursued economic integration in Central America, particularly with ratification and implementation of the Guatemala Protocol to the General Treaty on Central American Integration in
¶2002. In March 2002, El Salvador, Costa Rica, Guatemala, Honduras, and Nicaragua also signed the Central American Treaty on Investment and Trade in Services

¶3. The region's next step is the establishment of a customs union, and on May 12, 2006, Central American countries approved the Uniform Central American Customs Code (CAUCA). Countries in the region were to have prepared domestic regulation to implement CAUCA by year-end 2006, but meeting that deadline appears unlikely. Currently, 97 percent of tariff lines are harmonized, and the remaining 3 percent are sensitive goods such as coffee, sugar, rice, and their derivatives. There has been some progress on labeling standards, but the region has yet to address other issues related to creating a customs union such as customs procedures, sanitary and phytosanitary standards, labeling, quota management, and intellectual property rights.

¶4. Outside the region, El Salvador has aggressively sought new markets through trade agreements, and in 1995 it joined the Word Trade Organization. In 1999, El Salvador together with Guatemala, Honduras, and Nicaragua signed free trade agreements with the Dominican Republic and Chile; in 2002, the region concluded agreements with Panama and Mexico. The Central American and Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force between El Salvador and the United States on March 1, 2006.

Trade Talks with Taiwan, Colombia, the EU, and Canada
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¶5. Guatemala, El Salvador, and Honduras are negotiating a trade agreement with Colombia that they plan to conclude by year-end 2006. Under the agreement, products such as coffee, sugar, and rice--which are produced both by El Salvador and Colombia--will likely be excluded. Although current exports to Colombia are

insignificant, the largest potential for Salvadoran exports to Colombia is in textile and apparel and nontraditional agricultural products, both of which are included in the agreement.

¶6. El Salvador and Honduras are also negotiating a trade agreement with Taiwan. Broader than the agreement with Colombia, it would include a chapter on development cooperation and one on investment. Minister of Economy Yolanda de Gavidia said that a principal goal of the treaty is to attract Taiwanese investment. On the trade front, El Salvador sees potential to increase exports of sugar, coffee, fruits, herbs, apparel, and scrap metal. El Salvador seeks to exclude from the agreement sensitive products such as rice, poultry, steel, iron, and certain textiles, but El Salvador's strong political and investment ties with Taiwan will likely keep these sensitivities from becoming deal breakers. Within the region, Panama and Guatemala already have signed trade agreements with Taiwan, while Nicaragua is finalizing one.

¶7. At the European Union - Central American Summit in Vienna on May 13, 2006, participants announced plans to negotiate an Association Agreement that will include the establishment of a Free Trade Area. Few details are available at this point, but Ministry of Economy contacts suggest that trade provisions included in the agreement will likely be similar to those included in EU agreements with Chile and Mexico. However, the European Union has made it clear that it prefers to deal with Central America as a bloc and will not begin negotiations in earnest until the customs union is complete. Meanwhile, negotiations between the CA-4 (Guatemala, El Salvador, Honduras, and Nicaragua) and Canada are suspended, but Minister of Economy de Gavidia has expressed interest in renewing those talks in early 2007.

Plans for Talks with CARICOM and Israel

¶8. The CA-4 countries plan to negotiate a trade agreement with the Caribbean Community (CARICOM) in 2007. Vice Minister of Economy Eduardo Ayala has said the agreement would cover 90 percent of tariff lines. Israel has also expressed interest in negotiating an agreement with Central America, viewing the region is a good export market as well as a location for investment.

A New National Export Strategy

¶9. To help exporters take full advantage of the trade agreements negotiated, the Salvadoran Government launched El Salvador's first National Export Strategy on August 23, 2006. Led by Vice President Ana Vilma de Escobar--who is also President of the National Investment Promotion Agency (PROESA) and the National Export Promotion Agency (EXPORTA)--the initiative seeks to identify markets overseas for Salvadoran goods and provide assistance to local exporters to increase exports to $12 billion by 2016, up from about $3.4 billion in 2005.

¶10. With assistance from USAID and the Inter-American Development Bank (IDB), EXPORTA prepared the strategy in consultation with the private sector and government officials. During the formal presentation of the strategy, EXPORTA Director Aldo Vallejo made it clear that El Salvador does not want to compete on low cost, low value added products and instead wants to take advantage of its relatively skilled labor force, and other strengths, to focus on high quality, high value added goods.

¶11. The strategy includes a component focused on improving business competitiveness by establishing export consortiums for certain goods and establishing a certification program for quality products. Another component will focus on insurance and financing, including export credits, risk capital, guarantees, and insurance. Under this component, the government will provide assistance to small business in presenting their financial records to banks to improve access to credit. Other components of the strategy address logistic and transportation as well as training for Salvadoran diplomats on commercial issues and export promotion. Finally, the strategy seeks to create a culture of quality among local business through a publicity campaign directed at small businesses--projecting that image overseas through trade missions and other interactions with foreign buyers would also be important.

¶12. Comment: El Salvador's trade-led growth plan was designed to

encourage local productivity improvements in response to competition from abroad and open export markets for these newly-efficient local producers. The key to the plan was diversification--that is, exporting not only coffee and apparel but other goods as well. However, nontraditional exports (diversified, with more value added than traditional exports such as coffee and sugar) have fallen from 49 percent in 1990 to 39 percent in 2005 as a percentage of total exports. The new National Export Strategy suggests the government will make a more proactive effort to support local producers in their efforts to compete. The plan is promising, but we are concerned that it provides few details regarding implementation--a shortcoming that government officials promise to rectify over the months to come. End comment.

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